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COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
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April 1, 2003

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD
Director and Chief Medical Officer

A handwritten signature in black ink, appearing to read "Thomas L. Garthwaite", is written over the printed name and title.

SUBJECT: HEALTH DEPARTMENT BUDGET COMMITTEE OF THE WHOLE

I am writing to provide an update on the fiscal outlook for the Department of Health Services (DHS) and the status of efforts to implement Scenario III of the DHS system redesign proposal.

DHS Fiscal Outlook

Attachment I provides an update of the Department's Fiscal Outlook from the last Health Department Budget Committee of the Whole on February 11. In the notes to the prior schedule, the Department indicated it was in the process of updating the DHS estimated shortfall; this update is shown on the fourth line of Attachment I. Also provided is a summary of the major factors contributing to this update (Attachment II).

While the cumulative shortfall through Fiscal Year 2007-08 has been revised from \$407.1 million to \$649.4 million, it still appears that the Department should have sufficient funds to maintain its operations at the Scenario III level through Fiscal Year 2005-06, subject to the notes in Attachment I. Nearly 70 percent (\$166.8 million) of this increased shortfall is the result of revising the Fiscal Year 2006-07 and 2007-08 shortfall amounts to reflect actual forecasts in lieu of extrapolations from the original 90 percent block grant request.

As I indicated in my last report, there is considerable work that must be done for the Department to achieve a greater degree of fiscal stability. The State's Selective

Provider Contracting Program (SPCP) waiver must continue to be renewed by the Federal government on terms that are favorable to the County. Additionally, DHS must fully realize the savings goals set forth in Scenario III and find ways to close the expected cumulative funding shortfalls that begin in Fiscal Year 2006-07.

Waiver Related Issues

In February, when the Center for Medicare and Medicaid Services (CMS) granted the State's SPCP waiver extension, both CMS and the State committed to further pursue flexibility and reform in the Disproportionate Share Hospital (DSH) program. The Department submitted the DSH flexibility proposal to the State in early March and has been informed that the State plans to submit this document to CMS for review in early April. This proposal would allow the County to retain DSH funding that would otherwise be lost as inpatient services are reduced. If approved by CMS, this proposal would also require a change in state law to become effective.

DHS is also pursuing an amendment to the State's Medi-Cal Plan to make available federal funds to match a portion of the Measure B trauma funds to help stabilize the 10 private trauma hospital programs in the County. The State is presently reviewing the draft State plan amendment submitted by the County.

The County and State continue to pursue a rate increase to government-operated Medi-Cal managed care plans to support the health care safety net in these local jurisdictions. The State, County, and L.A. Care Health Plan are working together to finalize a proposal to make this rate increase retroactive to October 2002. Once the State has finalized this document it will be submitted to CMS, which must approve the rates.

Implementation of Scenario III

The Department continues to move forward with its efforts to implement the reductions contained in Scenario III. As the Department reported to your Board in February, although the original target date for the trigger of the employee cascade process was set for May 1, the 60 to 70 day review of the feasibility of transitioning Rancho Los Amigos National Rehabilitation Center to a private non-profit entity has delayed the cascade to June 30. As a result, the Department will not achieve approximately \$7.5 million in savings included in the fiscal outlook. A number of other areas have been identified to make up for this loss in savings, such as the increase in the number of budgeted vacant positions due to a higher than average attrition rate in the Department over the past several months.

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In accordance with your Board's direction, the Department is proceeding with plans to close Rancho Los Amigos National Rehabilitation Center and the inpatient services at High Desert Hospital by June 30. A separate report is being provided to your Board regarding the outcome of the High Desert Hospital Advisory Council business pilot.

One area in which the Department has encountered some difficulty in achieving the savings target is the \$20 million reduction associated with the provision of psychiatric services in DHS hospitals. The Department has spent considerable time working with the chairs of the hospital Departments of Psychiatry, as well as the Department of Mental Health (DMH), to identify cost savings and revenue enhancement opportunities. DHS and DMH also have collaborated to shift the operation of the outpatient psychiatric program at King/Drew Medical Center from DHS to DMH, which will result in savings of \$2.4 million. We intend to engage in similar discussions related to the outpatient program at LAC+USC Medical Center. Unfortunately, these efforts are not sufficient to achieve the savings required in the redesign proposal. Given the substantial reduction of \$17.6 million in funding provided by DMH for this patient population, it is unlikely the \$20 million savings target will be met in Fiscal Year 2003-04, unless DHS discontinues the provision of emergency and inpatient psychiatric services in its facilities.

With regard to the outsourcing of the administrative functions associated with the Community Health Plan, the Department anticipates concluding its negotiations shortly with L.A. Care Health Plan and bringing forth a recommendation to your Board for consideration.

King/Drew Medical Center is working to complete its plan to achieve \$30 million in savings in Fiscal Year 2003-04. I anticipate receiving this proposal within the next week.

The Department is preparing to run an employee cascade, reflecting the reductions outlined above, which will result in the distribution of letters to employees on June 15 and will be effective June 30. The Department will make every attempt to mitigate the number of employees laid off through placing them in unfilled budgeted items that are deemed critical to facility operations with DHS, as well as in other County departments. I also am working with the Chief Administrative Office and the Department of Human Resources on the limited and highly selective use of Voluntary Early Separation Incentives to mitigate the disruption of this large cascade.

The Department also is establishing an Employee Hotline, which will be operational on May 15. This hotline, which will be staffed by DHS Human Resources, will provide information on such matters as the cascade and transfer/layoff processes. The Department is scheduling meetings for late April with the union to meet and confer on

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the impending employee layoffs. Additionally, the Department is working to organize job fairs for employees laid off as a result of the cascade; thus far, three job fairs have been scheduled for June 14, 18, and 24.

Please let me know if you have any questions.

TLG:ak

Attachments

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors

FISCAL OUTLOOK - 3/26/03

(\$ IN MILLIONS BASED ON FY 02-03 SUPPLEMENTAL BUDGET RESOLUTION)

	FISCAL YEARS					TOTAL
	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Surplus/Deficit as of June 26, 2002						
Scenario III Reductions						
Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)						
Forecast Update						
Current Surplus/(Shortfall) without Additional Funding						
Additional Funding						
Measure B ^(a)						
Acceleration of Rancho Alternative Governance or Closure						
Current law DSH redistribution if Rancho and High Desert Closed						
State/Federal Transition Agreement						
SPC/PL (SB 1255)						
Outpatient Lawsuit Settlement - Federal Share						
Subtotal Additional Funds						
Annual Surplus/(Shortfall) ^{(a)(b)}						
Beginning Current Fiscal Year Fund Balance						
Cumulative Year End Fund Balance/(Shortfall) ^{(a)(b)}						

Notes:

- (a) These amounts are extrapolations from the original 50% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.
- (b) Reflects release of \$96.1 million trust fund reserve.
- (c) Of this amount, \$166.8 million is the difference between FY's 06-07 and 07-08 original fiscal year stabilization revenue request (see note (a)) and our actual current operating deficit forecast for these fiscal years.
- (d) Includes \$50.0 million in to be reserved for the New LAC+USC Medical Center equipment ACO Fund.
- (e) Amounts are planning estimates only, subject to refinement and Board approval.
- (f) Up to \$20M of the FY 03-04 SPC/PL dollars may require DSH flexibility to be retained.
- (g) Per State DHS, CMS may "re-base" the Medicaid Upper Payment Limit (UPL) beginning FY 05-06. The impact on County DHS of this potential action is estimated to result in reductions of Medicaid revenues from FY 02-03 levels high as \$198M. There is also a non-hospital clinic UPL, which the State has yet to compute, that could further reduce County DHS' Medicaid revenues. Further, the full realizability of the Scenario III savings, future State and Federal Budgets, accelerating healthcare inflation, and the President's Medicaid Relief Proposal create significant uncertainty regarding the Department's Fiscal Outlook.
- (h) These amounts are potentially improved by managed care supplement and DSH flexibility proposals currently being worked on with the State and Federal governments.
- (i) FY 02-03 Supplemental Budget Resolution includes \$245.8M of prior year's ending fund balance, leaving a residual of \$121.0M.
- (j) Corrected from 210003 schedule. No future fiscal years' impact.

LOS ANGELES COUNTY – DEPARTMENT OF HEALTH SERVICES
Summary of Implementation of Scenario III System Reforms
 (April 1, 2003)

Scenario III Reform	Implementation Target	Est. Savings FY 2002-03	Est. Savings FY 2003-04	Status/Comments
Hospitals				
1. Reduce LAC+USC by 100 beds	5/03*	\$ 2.00	\$ 16.10	Belenson Hearing held on January 28, 2002 for 100 bed reduction. Facility has identified 37 medicine and 13 surgical beds to be closed as of June 30, 2003.
2. LAC+USC Efficiencies	7/05	----	----	
3. KDMC 16% Efficiencies	5/03*	2.80	20.90	KDMC administration is completing plan to reduce \$30 million from facility budget in FY 2003-04. Final efficiency plan to be presented DHS Director and COO week of April 1, 2003.
4. Convert or Close Rancho	7/04*	----	58.50	<u>Closure</u> Belenson Hearing held on January 28, 2002. Facility has developed plan to close facility effective June 15. Notifications being provided to appropriate licensure/accrediting bodies regarding termination of program participation. Effective April 1, facility is triaging inpatient admissions based on the potential length of stay. Contracts are being developed to purchase mandated scope of services in private sector. <u>Conversion</u> DHS staff working with California Community Foundation on its feasibility study related to the conversion of Rancho to a non-profit entity. A status report will be transmitted week of March 31. Implementation completed in March 2002. Facility has developed plan to close acute inpatient beds effective June 15. Notification provided to CMS of intent to terminate Medicare participation for acute inpatient services. Effective April 1, admissions will be limited to short-term patients. MACC configuration has been established. Plans developed for facility renovations related to MACC. DHS continuing negotiations with Department of Corrections related to provision of skilled nursing services to inmate patients. DHS report on High Desert Hospital Advisory Council business plan will be transmitted week of March 31.
5. Eliminate HDH Inpt Rehab	3/02	0.50	0.50	
6. Convert HDH to MACC	5/03*	1.40	9.80	

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
EXPLANATION OF SCENARIO III, OTHER ADJUSTMENTS AND FORECAST UPDATE
JUNE 26, 2002 TO MARCH 26, 2003
(\$ IN THOUSANDS)

	FY 02-03	FY 03-04	FY 04-05	FY 05-06	Post Waiver		Total
	\$	\$	\$	\$	FY 06-07	FY 07-08	
SURPLUS / (DEFICIT) as of June 26, 2002							
1 Approved Salary COLA & Variable EBs COLA	-	(326.6)	(549.2)	(709.4)			
2 Services and Supplies COLA Update	-	(0.5)	6.0	12.7			
3 Pharmacy Costs	-	4.9	10.1	15.6	N/A	N/A	N/A
4 Debt Service (Commercial Paper & Capital Lease)	-	(0.4)	5.0	11.6			
5 Computer Contract Changes	-	(7.5)	(11.0)	(6.1)			
6 Nurse Staffing Ratios Law (AB 394 & 1760)	-	(9.0)	(10.1)	(10.1)			
7 Prior Years' PFSW Surplus	3.8	3.7	(6.7)	(6.9)			
8 Prior-Year Medicare Settlements	8.1	-	-	-			
9 SB 855 BIPA 2000/DSH COLA/RLA Closure/HDH Inpatient Closure	-	(25.6)	(49.8)	(56.4)			
10 Trust Fund Reserve Reversal and Future Recognition	-	68.2	68.2	164.3			
11 Scenario III - Operation reductions	-	120.9	248.2	296.2			
12 CHP Equity Distribution	20.8	21.0	5.1	5.3			
13 Medi-Cal Outpatient Service Settlement - State Share	24.2	-	-	-			
14 General County Overhead Increase	-	(9.5)	(9.5)	(9.5)			
15 Additional Designation to be Used / (Unavailable) to Balance Budget	-	70.7	(15.9)	(15.9)			
16 Other Changes from June 26, 2002	24.8	1.8	(0.5)	(1.0)			
Net SURPLUS / (DEFICIT) as of March 26, 2003	\$ 81.7	\$ (87.9)	\$ (310.1)	\$ (309.5)	\$ (446.4)	\$ (531.4)	\$ (1,685.4)

Attachment II

7. HDH Capitol Cost Avoidance	7/02		----	2.90	Need to work with CAO to reflect savings under DHS operations.
8. Restructure Psychiatric Services	10/02		.40	20.20	DHS has met regularly with DMH and facility Psychiatry Department chairs to evaluate cost savings and revenue enhancement options. King/Drew Medical Center outpatient psychiatry program to be transferred to DMH, effective 7/1/03; resulting in \$2.4 million in annual savings. DHS and DMH are initiating discussions about the transfer of the LAC-USC Medical Center outpatient psychiatry program. Cost efficiencies do not appear sufficient to bridge \$20 million funding gap without significant curtailment of DHS directly-operated emergency and inpatient psychiatric services.
Comprehensive Health Centers					
9. Consistent Staffing Model	5/03*		3.70	23.30	Facilities have identified reductions associated with this savings target, which will be implemented June 30.
Health Centers					
10. Northeast Area	10/02		6.30	8.90	Implementation completed in October 2002.
11. Coastal Area	10/02		1.00	1.40	Implementation completed in October 2002.
12. Southwest Area	10/02		12.70	18.10	Implementation completed in October 2002.
13. San Fernando Valley Area	10/02		3.20	4.50	Implementation completed in October 2002.
14. Antelope Valley Area	10/02		0.03	0.20	Implementation completed in October 2002.
Other					
15. Close 5 Health Centers	3/02		1.00	1.00	Implementation completed in March 2002
16. Reduce PPP Visits	7/02		12.50	15.00	Implementation completed in September 2002
17. Admin. Reductions (Phase I)	3/02		7.99	7.99	Implementation completed in July 2002
18. Admin. Reductions (Phase II)	7/02		5.04	5.04	Implementation completed in July 2002
19. Admin. Reductions (Phase III)	5/03				
20. Public Health Reductions	10/02		6.70	9.20	
21. Contract OMC/CHP Admin.	5/03		2.30	8.00	Implementation completed in July 2002

*Actual Savings will not occur until June 30, 2003, per DHS notification to Board of Supervisors on February 3, 2003.